AGRODEP BULLETIN

AFRICAN GROWTH AND DEVELOPMENT POLICY (AGRODEP) MODELING CONSORTIUM

REMITTANCES AS INSURANCE

Remittances are an extremely important phenomenon in today's global economy. The World Bank estimates that remittances totaled USD 440 billion in 2010, of which 73.9 percent (USD 325 billion) went to developing countries; this number in 2011 was USD 351 billion, an 8 percent augmentation. In 2010, remittances were sent by 192 million migrants or 3.0 percent of the world's population. For some individual recipient countries, remittances can represent a high percentage of GDP: 16 percent for El Salvador, 17 percent for Kosovo, 20 percent for Lebanon, Tonga, and Nepal, up to 29 percent in Lesotho, and 31 percent in Tajikistan (all figures for 2010 – Source: The World Bank, 2011). And for most of these countries, this share has only grown in more recent years.

A remittance is a transfer of money by a migrant worker to his or her family. Remittances can be sent either internationally or domestically. For domestic remittances, workers typically migrate from rural to urban areas and remittances flow from urban to rural areas. The figures cited in the previous paragraph exclude internal (mainly rural-urban) remittances and also exclude informal international remittances. Given these exclusions, this data vastly underestimates the economic importance of remittances.

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An extensive literature has emerged in recent years regarding remittances, particularly as they impact poverty. But this research has encountered two types of difficulties.

First, the motivation to remit, from a microeconomic point of view, is difficult to identify. In reality, there may be many motivations to remit. In the 1970s, the economic literature pointed out two main motivations to remit: altruism and self-interested decisions. Following these initial

AGRODEP is a Modeling Consortium of African researchers living and working in Africa with research interests ranging from economic modeling to regional integration and development to climate change, gender, poverty, and inequality. There are currently 118 members from 21 countries; our members work at top research institutions and universities in their own countries as well as various government agencies and non-profit organizations.

The **benefits of being an AGRODEP member** include opportunities for research grants, free access to cutting-edge economic research tools, data, and training. Members also gain access and exposure to large global networks of economic researchers and experts. Click here to learn more.

conceptual developments, later literature developed the concept of "tempered altruism/enlightened self-interest", a concept that involves both altruistic considerations and selfish strategies. This mixture of models has inspired various concepts relying on strategic game theory, insurance markets failures, and moral hazard consideration. In particular, the literature has combined altruism and self-interest to explain that remittances may be motivated by a combination of income source diversification (which drives the decision to migrate), the aspiration to inherit (which drives the decision to remit), and the desire to invest in assets at home. Remittances may also be explained as a repayment of loans on investments in education and migration costs. These alternative explanations have important consequences for the researcher, as "*One challenge in identifying these motives is that data are not typically available directly either from the sender or the recipient of remittances. As a result, researchers are normally left making inferences about or eliciting perceptions of conditions for the other in attempting to understand the rationale for remittances.*" (de Brauw, Mueller, Woldehanna, p. 1, cf infra).

This leads us to the second difficulty: a clear lack of data. If data on international migration are of relatively good quality, data on international remittances are limited and incomplete. In particular, data are often not matched by sender/recipient pairs. Data regarding internal remittances are even more seldom available, and so studies of internal remittances are rare. This is all the more disappointing because it is thought that internal remittances are more important for poverty reduction since very poor households prioritize this type of migration.

A recent IFPRI study (de Brauw, A., V. Mueller and T. Woldehanna, 2011, Insurance Motives to Remit: Evidence from a Match Sample of Ethiopian Internal Migrants, IFPRI Discussion Paper 01090) contributes to both the literature and the data by identifying an insurance strategy as the main motivation to remit. The authors base their econometric estimation on a unique dataset: a matched sample of households and internal migrants in Ethiopia. This matched sample provides a rich database that offers much more information not only regarding migrants' characteristics but also regarding source households and the types of shocks that these households faced during the period of study. This is important information in understanding Ethiopia's relatively low rate of remittances.

The conclusion that the authors present is that internal migration offers households the possibility to spatially allocate household members; they posit that this is a form of substitution for formal insurance. Remittance agreements, even implicit ones, can act as long-term insurance "contracts" between migrants and households. In rural areas, this is all the more important because the risks to on-farm and off-farm activities are highly correlated: "*Sending a migrant to a distant labor market diffuses the risk faced by the household in its local activities and acts as a substitute for insurance*." (de Brauw et al., p. 6, cf. supra). Migrants engage in remittance behavior either because they expect that their family will provide a rural-urban transfer if the migrant is faced with a negative shock or because of an expected bequest. In other words, remittances can be seen as a precautionary behavior.

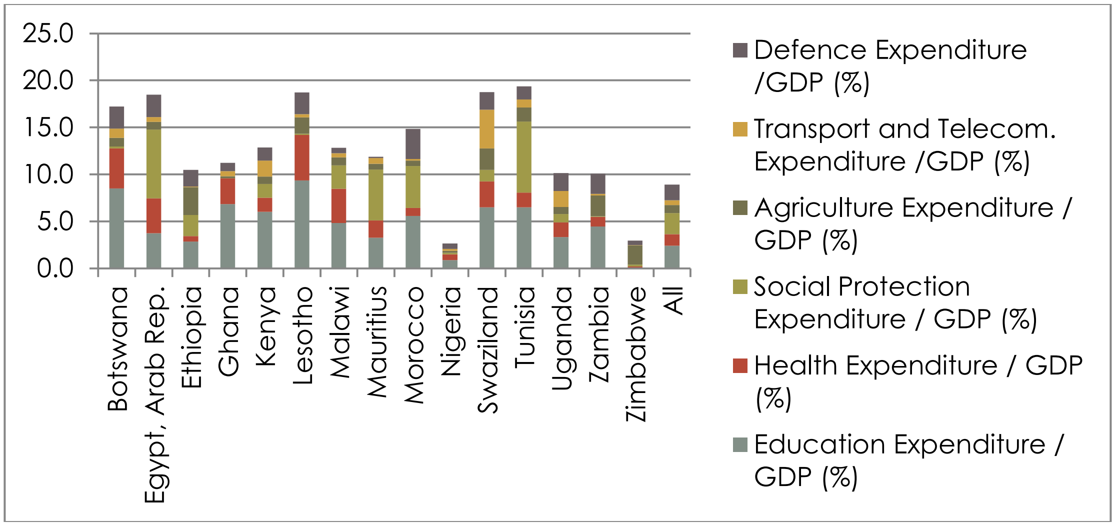
Using migration and remittances as a substitution for formal insurance is a high-cost strategy, both for the migrants and for the households. Addressing these costs could be the subject of future development interventions.

Antoine Bouet
Senior Research Fellow, IFPRI

DATA

Recent statistics about Africa

Figure 1: Statistics of Public Expenditure in Percentage of Gross Domestic Product (GDP) - 2007



Data source: SPEED and IMF. Note: All = All 67 countries contained in database

A new IFPRI database on Public Expenditures in Developing Countries, entitled SPEED (Statistics of Public Expenditure for Economic Development), provides policymakers, researchers, and the broader development community with comprehensive and publicly available public expenditure information. The database covers 67 countries, including 15 African countries, from six geographic regions: East Asia and the Pacific (EAP), Europe and Central Asia (ECA), Latin America and the Caribbean (LAC), Middle East and North Africa (MENA), South Asia (SA), and Sub-Saharan Africa (SSA). Data is generated mainly from the Government Financial Statistics Yearbook edited by the International Monetary Fund.

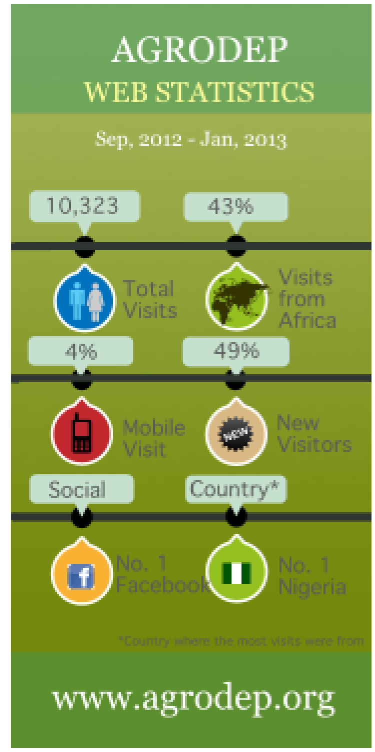
Figure 1 shows the share of six types of public expenditure in GDP in 2007 with a special focus on African countries: education, health, social protection, agriculture, transport and telecommunication, and defense. Tracking the first five indicators can help countries allocate public funds appropriately and establish more efficient public sectors. Even small efficiency gains in the public sector can have long-term development benefits by providing effective, targeted public services to poor populations. The SPEED database contributes to development by allowing policymakers and researchers to better understand the linkages between public expenditures and economic development. As can be seen in the “All” column of Figure 1, the majority of the 15 African countries covered in the database are performing relatively well compared to the overall 67 countries. This is particularly the case for education and health expenditures, but also to a lesser extent for transportation and telecom and agriculture expenditures. Public expenditures on agriculture are relatively high in Ethiopia, Zambia, and Zimbabwe. It should, however, be noted that these statistics on agriculture may be biased since agriculture expenditures may be close to zero in other countries where there is no agricultural potential.

It can also be seen from Figure 1 that there is a clear distinction between social protection expenditures in Northern Africa (relatively high, particularly in Egypt and Tunisia) and Africa South of the Sahara (generally low, with the exception of Mauritius). Additionally, overall public expenditures are very low in two African countries: Zimbabwe and Nigeria.

AGRODEP 2012 SPECIAL AWARD FOR PUBLICATIONS

New Series of Awards Announced

In January, AGRODEP announced a new award series, the 2012 Special Award for Publications. This award is open to AGRODEP members as a reward for excellent publications in 2012 and an incentive to continue publishing in 2013. Peer reviewed, non-peer reviewed, and international conference papers with a selection committee are all eligible, and the award amount is $3,000. Applications for the award closed on January 31 and the selected publication will be announced on February 28, 2013.



AGRODEP TRAININGS

2013 Training schedule

AGRODEP has recently announced the list of its 2013 training courses. The eight courses were chosen using a member survey conducted in November. The schedule of courses and training materials will be released in the coming weeks.

- Impact Evaluation and Analysis of Development Intervention
- Evaluation of Public Policies
- Applied Panel Data Econometrics
- Poverty Measurement and Analysis
- Applied Microeconometrics
- Estimation of the Economic Impact of High Food Prices Using Micro Data
- Assessing Crop Production, Nutrient Management, Climate Risk, and Environmental Sustainability with Simulation Models
- GAMS-Based CGE Models (Basic)

2012 SPECIAL CALL FOR MEMBERS

AGRODEP Membership Extension

In December, AGRODEP welcomed 34 new members from the 2012 Special Call for Membership. This new membership extension brings AGRODEP's total membership to 118. The call focused on researchers who are engaged in or strongly interested in impact evaluation. The 34 new members represent 11 countries and bring a variety of professional experience and research interests. View the new member profiles.

WHAT IS AGRODEP?

The African Growth and Development Policy (AGRODEP) Modeling Consortium is an initiative led by the International Food Policy Research Institute (IFPRI). The goal of AGRODEP is to position African experts to take a leading role in both (1) the study of strategic development questions facing African countries as a group and (2) the broader agricultural growth and policy debate, which traditionally has been dominated by external actors and concerns.

CONTACT INFORMATION

http://www.agrodep.org/ • info-agrodep@agrodep.org

IFPRI-Dakar : Titre 3396 Lot #2 BP 24063 Dakar-Almadies Senegal
Tel: +221 33-869-9800 Fax: +221 33-869-9841

IFPRI-DC: 2033 K St, NW Washington, DC 20006-1002, USA
Phone: +1 202-862-5600 Fax: +1 202-467-4439